FREEDOM
FEDERAL CREDIT UNION

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February 7, 2011

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW.
Washington, DC 20551.

Re: Docket No. R-1404

Dear Ms Johnson:

No doubt you are inundated with comments regarding your proposed rule to regulate debit interchange fees and debit card routing … so I'll be brief. Please do not mistake brevity for the absence of intense concern.

First, regarding debit interchange, our credit union has two major concerns. One is that the small issuer "protection" intended by Congress will not be provided because the proposed rule includes no enforcement provisions. From our real world perspective, no enforcement equals no protection. Our other concern is the fee structure limits that are proposed. Both Alternative 1 and Alternative 2 are deficient in that they negligently fail to include fraud prevention, data security and payment card network fee costs in their methodologies. Additionally, optimistically assuming that we earn the maximum large issuer interchange rate of 12 cents per transaction, we have calculated the following related to the projected full-year financial impact to our credit union:

- Freedom would lose $121,000 during 2011 in debit interchange income,
- This loss represents 3.8% of our budgeted total income, 13.9% of our budgeted non-interest income and 2,441% of our budgeted net income for 2011 … in other words, we would lose money for the year,
- Replacement of this lost income would require us to increase annual checking account fees by $50 per checking member.

Second, regarding network exclusivity and routing requirements, I'll cut to the chase. ANY requirements such as those that are proposed will increase costs to our credit union. Adding increased costs to lost interchange income will simply exacerbate the net income deficit described above. Such deficits must be recouped from our member owners. This produces the proverbial "unintended consequences" for consumers … the supposed beneficiaries become the victims.

In closing, our analysis of the proposed rule is simple. It is harmful to our members. It is harmful to consumers, in general. It will raise merchant profits. It will increase consumer costs. And, in the long-run, it will reduce consumer choice, and further raise their costs, as small issuers exit the debit card marketplace.

Respectfully,

FREEDOM FEDERAL CREDIT UNION

Jeffery R. Jones
President / CEO